

In Focus

For APS Active and Deferred members
February 2017

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Welcome

Welcome to the new look In Focus newsletter for 2017 in which we look back on another very busy year which saw the end of 'contracting out' for pension schemes, a move to a Corporate Trustee structure, and the publication of the Scheme's annual report and financial statements. We've also included in this edition; how to manage your pension online including sending us your instructions online, tax updates and changes, protecting yourself from scams, along with a timely reminder (for active members) if you want to change your build-up rate and lots more.

New look – we're reviewing our communications

You'll notice that this edition of In Focus looks different to previous versions. This year we've produced a version for active and deferred members and one for pensioner members so that we only provide you with the information you need. There'll be further changes to future editions as we aim to ensure we're communicating in the best, most effective and efficient way to members.

Around 50% of APS members view In Focus online and are able to access it at any time. This year we've launched a new interactive online In Focus, which allows you to hover over certain parts of the newsletter and drill down for more information if you want this. You can access websites and links direct from the newsletter and watch a video of one of our Trustee Directors discussing the impact of State Pension changes. We're also able to run surveys and ask you questions which is something we'll be introducing in next year's edition.

You can take a look at this year's more interactive In Focus by going to the 'News' page of our website (www.mybapension.com/aps).

Get communications quicker by switching to receive online communications – registering is easy!

If you have a computer/tablet with access to the internet and an email address, it's really easy to register to receive communications online – just go to the 'Register' button at the top of our website (www.mybapension.com/aps).

We'll then keep in touch by email sending you updates and links to communications you should be aware of.

We hope you find the information in this newsletter useful and encourage you to tell us about any items you'd like featured in future editions. Send us your feedback/ comments to enquiries@bapensions.co.uk

What does contracting out mean?

Prior to April 2016, most active members were contracted out of the State Second Pension (S2P), formerly the State Earnings Related Pension (SERPS), meaning you paid lower National Insurance (NI) contributions and didn't build up benefits in the S2P. Instead, the Scheme agreed to pay a pension that was at least as much as the S2P. With effect from 6 April 2016, the Government replaced old State Pension arrangements with a new flat-rate State Pension for those reaching State Pension Age (SPA) after 5 April 2016. Pension schemes can no longer contract out and as a result employees and employers NI payments increased. More about this on page 17.

Good to know - membership numbers

On 31 March 2016, the total membership of APS was 26,351, made up of:

	2016	Change from 2015
Active members	548	✓ 113
Deferred members	1,272	✓ 187
Pensioners	17,829	✓ 486
Dependant pensioners	6,702	✓ 131

At a glance - contributions paid in and out over the year to 31 March 2016



Pension increase update

Update on Court Case

Each year, we increase members' pensions in line with the Government's measure of inflation. In 2010, the Government changed this measure from the Retail Prices Index to the Consumer Prices Index (CPI). This is generally expected to mean lower increases for members. In 2011, the Trustee decided to introduce a new power that would allow us each year to consider a further, discretionary increase. BA brought a legal claim against the use of that power and as you will know from previous updates available on the 'News' page of our website (www.mybapension.com/aps), a trial started in October 2016.

The trial ended on 9 December 2016 and the outcome of the case is not expected to be known for around another two months. Following the trial, the Trustee remains of the view that it acted appropriately and within the rules of the Scheme at all times. BA challenged both the Trustee's decision to introduce a discretionary increase power in 2011 and the decision to award a discretionary increase in 2013. The judgment could uphold both, the first or none of these decisions. As a result, a number of potential outcomes to the trial are possible.

Once the judgment is published, we will communicate the outcome and its implications to you. There will be further developments to report if there is an appeal.

As you would expect, the Trustee has been preparing for the range of potential outcomes, including the complex administration processes required if any payment of discretionary increases can be made. The timescales of any action will be driven by the nature of the judgment.



Deferred members

Scheme pension increases

Most deferred pensions within APS increase each year, as described in the Scheme Rules and the above mentioned court case will have no impact on standard increases, which will continue to apply. You can check the increased amount on your next deferred pension statement which will be posted to you at the end of May.

Who manages APS?

Move to a Corporate Trustee structure

APS is now managed by a Corporate Trustee, Airways Pension Scheme Trustee Limited. This change brings APS in line with best practice of other large pension schemes. The individual Trustees are now Trustee Directors of the Corporate Trustee and remain responsible for managing the Scheme through the Corporate Trustee. You can read more about this on the **'News'** page of our website.

The Trustee Directors

APS is managed by twelve Trustee Directors. Six Trustee Directors are elected by the active and pensioner members of APS (as Member Nominated Directors) and six are appointed by BA (as Employer Nominated Directors).

The current Trustee Directors are:

Employer Nominated Directors

Virginia Holmes – Chair, Independent Trustee

Andrew Fleming – Head of Legal and BA Company Secretary, BA

Bill Francis – Head of Group IT, IAG Group

Ian Howick – Director of Heathrow, BA

Charlie Maunder – Head of Flight Operations, BA

Jude Winstanley – Head of Network, Alliances and Compliance, IAG Cargo

Member Nominated Directors

Frances Axford – Pensioners

Paul Douglas – Pensioners

Ian Heath – Pensioners

Phil Hogg – Pensioners

Stephen Mallett – Pensioners

Tom Mitchell – Actives/Pensioners

Wishing Teresa a happy retirement and welcome to our new Scheme Secretary and CEO, Fraser.

After 38 years with British Airways Pensions, Teresa Suriyae retired from her roles as Managing Director and Scheme Secretary of APS. Succeeding Teresa is Fraser Smart. Fraser is a qualified actuary with over 25 years' experience in pensions. Fraser joins us as Scheme Secretary and Chief Executive Officer of BA Pensions, with responsibility for administration and investment teams.

Manage your APS pension online

More than 12,000 APS members receive their pension communications online along with being able to make changes and updates to their pension options, as well as access to do lots more.

New! We've added new online forms so you just need to click to send your instructions to us - no need to post a paper form although we'll still accept paper forms if you prefer.



Active members

Active members, you can:

- Use the online modeller to see your pension and tax-free lump sum options at different retirement ages.
- Model your Additional Voluntary Contributions (AVCs) online.
- View your annual benefit statements and AVC statements (if you usually receive one of these).

New! Start, stop or change your regular SmartAVCs and switch your existing AVC investments.

New! Nominate preferred beneficiaries for lump sum death benefits.

New! Register a surviving dependant.



Deferred members

Deferred members, you can:

- View your annual pension statements and AVC statements (if you usually receive these).
- Update your postal address.

New! Switch your existing AVC investments (if you have a BA AVC account).

New! Nominate your preferred beneficiaries for any lump sum death benefits.

New! Register a surviving dependant.

How do I register?

If you haven't already, it doesn't take long to register to manage your pension online – here's what you'll need:

1. Your pension reference number (you'll find this on any pension statements we've sent to you recently).
2. The password we originally sent to you (don't worry, call us on 020 8538 2100 if you don't have your password and we'll help you with a reminder).

Register at **www.mybapension.com/users/sign_up**

Don't forget to nominate!

New! You can now complete an online Notice of Wish naming the beneficiaries you would like the Trustee to consider to receive the lump sum.

- 1 Log in to mybapension – **www.mybapension.com/users/sign_in**
- 2 When you've completed the online Notice of Wish just click 'submit' to send your request straight to the BA Pensions team – no need to post!



Active members

If you die whilst you are still working for BA, your beneficiaries could receive a lump sum broadly equal to three times your pay, plus any AVCs.

If you work part-time, the lump sum is three times your part-time equivalent of your pay.



Deferred members

If you die and no Adult Survivor's pension is payable, your beneficiaries could be entitled to receive a lump sum made up of your pension contributions with interest up to the date of death, plus any AVCs.

You should keep your Notice of Wish regularly updated. We can also accept paper forms if you prefer.



Want to change your pension build-up rate?

The 1 April election date for changing your pension build-up rate for future service is fast approaching. A reminder of the build-up and contribution rates you can choose are shown below. If you wish to change your pension build-up rate, please fill out a paper form available on the 'Forms' page of our website (www.mybapension.com/aps).

	Slower rate	Default/Standard rate
Flying staff	1/54	1/52*
Percentage of pensionable pay	8.50%	8.50%
Ground staff	1/58	1/56*
Percentage of pensionable pay	7.25%	7.25%

*In addition to the amounts above, members who are under State Pension Age pay 3.1% of their *Band Earnings* to the Scheme unless they have chosen the 1/54 (Flying staff), 1/58 (Ground staff) build-up rate, in which case BA covers this amount. Contributions are paid as a percentage of your *Pensionable Pay*.

Explanations of these terms can be found on the 'Glossary' page of our website (www.mybapension.com/aps).





Active members

Save more with AVCs

While you are an active member, you can save more for retirement by paying AVCs. You can choose one or more of three AVC funds offered by British Airways Pensions, each offering different potential investment returns. The AVC funds and the potential returns each provide are explained further in the AVC Plan leaflet under the ‘Forms’ page of our website. You can also check AVC rates for any of the three AVC funds we offer by visiting the ‘AVCs’ page of our website (www.mybapension.com/aps).

Equity Biased (EBF) AVC Fund – interest rate change

The Equity Biased Fund is one of three in-house AVC funds offered by British Airways Pensions. It provides interest made up of a bonus element and a guaranteed element. The index used to set the guaranteed element of the interest rate in this fund had been discontinued so the Trustee agreed to change the index used, based on advice from the Actuary.

Scheme funding valuation

Agreeing the Scheme's 2015 valuation

A detailed financial health check of the Scheme, known as a valuation, is carried out every three years by the Scheme's Actuary. The outcome of the 31 March 2015 valuation has been delayed due to the legal proceedings in relation to discretionary pension increases. We expect to know the outcome of these proceedings over the coming months and hope to be able to then move forward with the valuation.

Money going in and out of the Scheme

The Scheme's annual report and financial statements for the financial year to 31 March 2016 were approved in September 2016 and showed that at 31 March 2016, the assets of APS were just under £7.0 billion.

The annual report and financial statements show the financial position of the Scheme on a particular day and are different to a valuation which looks at the longer-term position of whether the Scheme is likely to be able to pay the benefits that are due to be paid.

The following table is taken from the annual report and financial statements and summarises the financial position of the Scheme as at 31 March 2016, including:

- income (member and employer contributions, and investment income);
- expenditure (outgoings such as payment of pensioner and dependant benefits); and
- the change in the market value of the Scheme's investments during the period.

	Million
Value as at 31 March 2015	£7,509.2
+ Income	£184.4
- Outgoings	(£395.2)
- Change in market value of investments	(£304.0)
Value as at 31 March 2016	£6,994.4

The Scheme Auditor, KPMG, gave its opinion that the Scheme's report and financial statements provide a true and fair view of the financial transactions of, and the investments held by, the Scheme.

Scheme's investments

British Airways Pension Investment Management Limited (BAPIML) manages the day to day investment decisions for APS on behalf of the Trustee. The Scheme's Statement of Investment Principles is available on the 'Scheme documents' page of our website (www.mybapension.com/aps).

Investment update

The Fund's investment returns are measured against a strategic benchmark. The APS Trustee has set a target for the Fund's investment managers to beat the investment returns of the benchmark by 0.3% over a five-year rolling period. Over the year to 31 March 2016, returns on the APS investments that are measured against the benchmark, including stocks, equities (shares) and bonds (gilts) were positive.

The actual investment returns over ten years were better than the target benchmark but returns over one, three and five years were below the target benchmark (due mainly to equity portfolios underperforming the benchmark, with the exception of the North American equity portfolio). The Investment Report on page 14 within the annual report and financial statements (available on the 'Scheme documents' page of our website) describes investment performance in detail.

What is a benchmark?

The performance of each of the main asset classes is measured against a market index. For example, the performance of UK equities is measured against the FTSE All Share. The indices are selected to ensure that the investment performance objectives are linked to the liabilities of APS. The aim is to meet this level of return and investment performance is judged against this target.



Scheme funding valuation continued

How APS investments performed

Financial years to 31 March 2016		APS returns (a year)	Benchmark returns (a year)
2016	1 year	0.88%	1.44%
2014/2016	3 years	4.00%	4.70%
2012/2016	5 years	7.49%	7.69%
2007/2016	10 years	6.68%	6.59%

Investment strategy

The Trustee aims to choose investments that meet the cash flow needs of the current membership by providing the right mix of growth and security. This is done by investing in a mixture of assets.

APS investments as at 31 March 2016

UK equities	2.8%
Overseas equities	7.0%
Private equity	1.4%
Alternative investments	3.9%
Property	4.6%
Loan notes	1.1%
Real assets (infrastructure)	2.1%
Bonds fixed	14.9%
Bonds indexed	61.8%
Cash	0.4%
Total	100%

Want to know more?

The full annual report and financial statements for the year ending 31 March 2016 is available on our website, under the 'Scheme documents' page and show a further breakdown of the Scheme's investments, including on page 14 a detailed Investment Report on how they performed over the year to 31 March 2016.



Are you scam proof?

You may have heard in the news about a growing number of people falling foul of pension scams. To help protect yourself and your savings, here's a few useful steps to follow:

1. Be cautious of cold calls and unwanted texts or emails.
2. Never be rushed into making a decision and take the time to do your research.
3. Make sure financial advisers are registered with the Financial Conduct Authority (FCA) to check if they are approved. You can also check the FCA's list of known scams. Check all of these by going to: www.fca.org.uk
4. Avoid overseas investment deals and promises of 'guaranteed' high returns, even if they are communicated via professional looking websites and brochures. No matter how credible something appears, you should always question it!

If you have any doubts at all, contact The Pensions Advisory Service for free help and advice. You can reach them on 030 0123 1047 or visit www.pensionsadvisoryservice.org.uk

If you've already signed something you're now unsure about, call Action Fraud on 030 0123 2040 and contact us immediately on 020 8538 2100. We may be able to stop a transfer that hasn't taken place yet.

Changes to GMP increases

We mentioned in the last edition of In Focus that the Government has changed the way it pays increases on Guaranteed Minimum Pensions (GMP).

If you were a member of APS at any time between 6 April 1978 and 5 April 1997 (except married women or widows who paid a special reduced rate of NI contributions), you will have a GMP. Your GMP is the minimum amount of pension we must pay you from GMP Age (60 for women, 65 for men), or set aside and increase if you choose to draw your APS pension later than this. The GMP is paid as part of your total APS pension, rather than being paid on top.

So, what has changed?

The old State Pension arrangements were replaced with the New State Pension (NSP) from 6 April 2016 for anyone who reaches State Pension Age (SPA) after this date. If you reach your SPA on or after 6 April 2016 the Government will no longer pay increases to an amount equivalent to any GMP which built up before 5 April 1988 and any increase due above 3% on GMP built up after 5 April 1988. It used to pay these increases as part of your State Pension. Instead, it will now currently pay 'triple lock' increases to your NSP at the higher of the increase in average earnings, CPI or 2.5%.

Members who reached their SPA before 6 April 2016 are unaffected.

Your GMP is paid as part of your APS pension and the Scheme will continue to increase GMPs in the way it always has.

The Scheme must increase any GMP in payment until you reach your GMP Age. After this, the Scheme will increase your GMP built up between 6 April 1988 and 5 April 1997 by the lower of the rate stated in the Government's GMP increase orders (currently CPI) each year, or 3%.





Go to the 'Videos' page of our website (www.mybapension.com/aps) to hear Ian Heath, BA pensioner and Trustee Director, explain how this change impacts him.

The Department for Work and Pensions maintains that most individuals will be better off under the new arrangements as they will be entitled to the higher of the NSP or old State Pension arrangements at 6 April 2016. Individuals will then be able to build further NSP after 6 April 2016 if they are eligible to pay National Insurance contributions or secure NI credits.

Your SPA

Your SPA is the earliest age you can start receiving your State Pension and is set by the Government based on your gender and date of birth.

Check your SPA

www.gov.uk/state-pension-age

Check your State Pension

www.gov.uk/check-state-pension

Tax updates

Annual Allowance (AA) 2016/17 = £40,000

The AA is a limit set by HMRC on the total amount of pension savings you can make (excluding the State Pension) each year and still receive tax relief.



Active members

For APS active members the value to compare against the AA is the growth in your APS pension each year (above CPI increases) plus any AVCs you have paid. We'll send you a statement in the summer following the end of the tax year if your BA benefits exceed the £40,000 AA.



Deferred members

If you are a deferred member your APS benefits do not count towards your AA but you will need to check any pension savings you are making elsewhere. You should also read about the change to the tapered AA below to see if this applies to you.

Tapered AA

For the 2016/17 tax year onwards, HMRC has reduced the AA for some higher earners. If your taxable income is over £110,000 a year and your 'adjusted income' is over £150,000 then your standard AA is tapered. This means that for every £2 your adjusted income is over £150,000, your AA goes down by £1.

If your adjusted income is £150,002, your allowance reduces to £39,999. This taper continues down to a minimum of £10,000 – everyone gets at least this much AA.

Unfortunately, we can't work out your tapered AA for you, this is something you must do yourself, but later in 2017 we will be writing to members who we estimate may be affected, based on BA pensionable salary (you'll need to check the information we send as we don't hold details of your gross earnings or salary).

You'll find helpful information on the '**Scheme information**' page of our website (www.mybapension.com/aps) along with HMRC guidance on how to work it out.

What is adjusted income?

Your taxable income plus the increase in the value of your pension during the year, not including any AVCs you've made.

Ask the Scheme to pay

If you exceed your tapered AA or the standard AA, you'll have to pay some extra tax. You can ask the Pension Scheme to pay any AA tax relating to your APS benefits on your behalf as long as your total tax charge exceeds £2,000. You can choose for BA Pensions to pay this immediately out of your AVC account if you have one, or by reducing your APS pension when you leave APS, retire or die. Please contact us if you'd like to pay your AA tax in this way or would like further information.

Lifetime Allowance (LTA) 2016/17 = £1 million

If your total benefits will exceed the LTA when you draw them, you can use HMRC's new online service – Lifetime Allowance Protection – to apply to protect your pension savings from the LTA charge. The service includes guidance for members, including help with valuing pensions for individual protection 2016. Access the new service at www.gov.uk/guidance/pension-schemes-protect-your-lifetime-allowance. **Reminder:** The deadline to apply for individual protection 2014 (for individuals with benefits valued over £1.25 million at 5 April 2014), is **5 April 2017**. If you wish to rely upon protection you'll need to provide us with details of your valid LTA protection status before drawing your benefits.



Active members

State Pension changes – Increase in NI contributions

In April 2016, the Government introduced the New State Pension and with it contracting out of the old State Pension ended, meaning an increase in NI contributions for active member employees. BA consulted with employees about the changes and how they intended to pass the increase in employer's NICs onto members.

A lower pension build-up rate of 1/54 (Flying staff), 1/58 (Ground staff) was introduced for those members who didn't want to pay the additional amount. A reminder of the build-up rates available is provided on page 8. Election dates to change build-up/contribution rates are 1 April and 1 October each year but in 2016 an extra window was provided on 1 July.

Good to know

Transfer values update

Following the Government's introduction of measures allowing greater access to defined contributions benefits, an early review of factors used to calculate transfer values was undertaken. From 1 April 2016, transfer value factors were updated, leading in general, to a fall in transfer values calculated on or after this date for members close to, at or over Normal Retirement Age and an increase in transfer values for younger members.

Pensionable dependants

The following point of law was clarified: where a pensioner's pension commenced after 1 July 2008, legislation restricts the Scheme paying an Adult Survivor's pension to an adult child over age 23 unless the adult child is mentally or physically impaired. Payment outside of the legislation would be an unauthorised payment with tax implications for the dependant and the Scheme. Adult Survivor pension applications are considered on an individual basis by the Trustee. You can register a surviving dependant by logging on to 'mybapension' on our website (www.mybapension.com/aps) and submitting details online. If you can't log on you can print a paper form from the 'Forms' page of our website, complete it and send to us. Our contact details are on the back page.



Are we reaching everyone?

Please help us keep in touch!

Are you in touch with former friends or colleagues of British Airways? Have they received their In Focus (by email or in the post) or any other pension communications from us in the last year or two? Although it's hard to believe, some of our members and pensioners don't always notice they've not heard anything from the team at BA Pensions for a while. Often they've moved and forgotten to tell us, making it difficult for us to get back in touch.

If mail we send is returned to us we use a tracing service to try to reach members or pensioners but often, all it takes is a friend or neighbour mentioning In Focus in conversation. If someone you know has not received either an email alert or copy of In Focus, please ask them to call us on 020 8538 2100.



Useful contacts

The BA Welfare and Benevolent Fund

Set up by British Airways to help current and former employees who are experiencing financial hardship. Grants are awarded to assist with the purchase of necessary goods or services that cannot be afforded from normal income. Almost any one-off cost will be considered, although the Trust cannot provide ongoing support. Examples of items for which grants have recently been awarded are mobility aids or special equipment, appliances for the home, and property maintenance and adaptations.

Contact the BA Welfare and Benevolent Fund in confidence on 020 8513 2528.

The BA Touchdown Team

Looks after the interests of all former employees by maintaining and supporting the link between British Airways and its former staff by:

- representing the interests of former employees corporately
- authorising former staff ID cards and travel letters
- providing helpline advice and support for former staff
- communicating with former staff via the Touchdown website
- administering the BA Welfare and Benevolent Trust Fund

Visit: www.ba-touchdown.com, email: batouchdown@ba.com or call 020 8513 2528.

The BA Touchdown Team also works with the Former Staff Liaison Council (FSLC), who meet four times a year and are a long standing group that BA liaises with on relevant matters and who represent the views of pensioners and former employees.

If you wish to join FSLC to assist former colleagues you can contact them at any time by email: Liaison.1.council@ba.com

Contact us

British Airways Pensions is here to help all APS members; whether you are an active member still working for British Airways, or you have left APS/British Airways but not yet drawn your pension. You can contact us in the following ways:

Write to:

British Airways Pensions
Whitelocke House
2-4 Lampton Road
Hounslow
Middlesex
TW3 1HU

Call:

020 8538 2100
9am to 5pm Monday to Friday

Email:

enquiries@bapensions.co.uk

Visit our website:

www.mybapension.com/aps